



CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 132 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON 21ST AND 22ND SEPTEMBER, 2020

The Monetary Policy Committee (MPC) met on Monday, 21st and Tuesday, 22nd September, 2020, in the light of lingering uncertainties associated with the COVID-19 pandemic and downturn in crude oil prices. These uncertainties which centered primarily on when the pandemic will be fully subdued and the oil market return to normalcy, have resulted in persistent weak aggregate demand, disruptions in global supply chains, mixed price development, volatile and downward trending oil prices, as well as rising unemployment.

The Committee reviewed these developments and assessed their impact on the domestic economy in the first three quarters of 2020 and noted the outlook for the rest of the year.

Ten (10) members of the Committee were in attendance.

Global Economic Developments

The Committee observed the moderate improvement in global output performance with widespread recession in the second quarter of 2020. This followed the sharp decline in output growth in the Advanced Economies and some Emerging Markets and Developing Economies (EMDEs), as well as the risk of further deterioration in global output growth, associated with the lingering shocks from the COVID-19 pandemic. Global exports and international travels,

however, showed signs of gradual, but sluggish recovery, as countries relax restrictions to allow for resumption of economic activities.

The International Monetary Fund (IMF), therefore, remained cautious of its global growth forecast for 2020, which was hinged on the near-term containment of the pandemic. The likelihood of a second-round spike in the rate of infection is, however, undermining hopes of an early return to normalcy. Oil exporting countries are also likely to face further revenue shortfalls as a result of the decision by OPEC+ to reduce its production ceiling from 9.6 million barrels per day to 7.7 million barrels per day. Due to these headwinds, we suspect that the global economy may suffer a deeper contraction in 2020 than the 4.9 per cent projected by the IMF. This may also dampen the projected recovery in 2021.

The MPC observed the huge injection of monetary and fiscal stimulus into the global economy, noting its medium-term inflationary potential. In major advanced economies, inflation mostly remained below their 2.0 per cent long-run objectives, as the recovery of both global aggregate demand and supply remained stalled. Across the group of Emerging Market and Developing Economies, price development remained mixed, reflecting the diverse structure of these economies. The exchange rates of EMDEs continued to be under pressure as global capital flows were subdued, reflecting investor's preference for gold as a safe haven. With the unprecedented and coordinated injection of liquidity by central banks and fiscal authorities globally, the risk of another financial crisis post-COVID-19 can no longer be overlooked as this may likely crystallize into a double deep global recession when central banks across the globe move to normalize monetary policy.

In the global financial markets, conditions remain relatively tight reflecting continued uncertainties. Thus, while markets are showing moderate signs of recovery, financial conditions are yet to ease fully as investors remain cautious of the lingering risk of a second-round of lockdown.

Domestic Economic Developments

Available data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) contracted by 6.10 per cent in the second quarter of 2020 compared with expansions of 1.87 and 2.12 per cent in the preceding quarter of 2020 and the corresponding period of 2019, respectively. The development ended the three-year trend of low, but positive real GDP growth recorded in Nigeria since the end of the 2016/17 recession. The contraction in Q2 2020 was largely driven by the poor performance of both the oil and non-oil sectors due to the lockdown to contain the spread of the pandemic in Q1 2020. The oil sector contracted by 6.63 per cent in Q2 2020 from -5.03 per cent in the previous quarter, while the non-oil sector contracted by 6.05 per cent in Q2 2020, compared with an expansion of 1.55 per cent in Q1 2020.

The MPC noted the continued weakness in economic activities as indicated by the Manufacturing and non-Manufacturing Purchasing Manager's Indices (PMIs), which remained below the 50-index point benchmark. In August 2020, the Manufacturing and non-Manufacturing PMIs were 48.5 and 44.3 index points, respectively, compared with 42.4 and 43.3 index points in July 2020. This was attributed to slower growth in production, business activities, new orders, supply delivery time, employment level, new export orders and raw materials and input prices. Similarly, the employment level index component of the Manufacturing and non-Manufacturing PMIs in August 2020 was 44.6 and 44.3 index points, respectively, compared with 40.0 and 41.1 index points in July 2020. The Committee was, however, optimistic that with the easing of the lockdown and gradual resumption of economic activities, the PMIs will improve in the short-to medium term.

The Committee expressed deep concern on the continued uptick in inflation for the twelfth consecutive month as headline inflation (year-on-year) rose to 13.22

per cent in August 2020 from 12.82 per cent in July 2020. The increase in headline inflation was largely driven by the persistent increase in the food component, which rose to 16.00 per cent in August 2020 from 15.48 per cent in July 2020. The core component also rose to 10.52 per cent in August from 10.10 per cent in July 2020. These upticks were driven primarily by legacy structural factors such as the inadequate state of critical infrastructure and broad-based security challenges across the country, which damped production activities. Other factors include the disruptions to supply chains following restriction to movements to curb the spread of the pandemic; adverse weather conditions, which resulted in flooding of farmlands; as well as the inflation pass-through to domestic prices following the depreciation in the exchange rate. The recent increase in energy cost is also expected to further impact the domestic price level in the short-term.

The Committee, therefore, stressed the urgent need for a combination of broad-based monetary and fiscal policy measures to curb the rise in inflation and contraction in output growth. This will involve targeted investment by the fiscal authorities to resuscitate critical infrastructure to improve the ease of doing business across the country. In addition, the MPC believes the fiscal authorities can build on earlier efforts and articulate a clear strategy to attract private sector investment. The Bank will, however, continue to take relevant steps to ensure that the detrimental risk of inflation to the economy is contained.

The Committee noted the various interventions by the CBN to reflate the economy, improve aggregate supply and drive down inflation. Recent interventions were largely in the areas of Manufacturing, Agriculture, Electricity & Gas, Solar Power and housing constructions among others. It expressed optimism that these initiatives will significantly ease the adverse impact of the COVID-19 pandemic and set the economy on a path of recovery. So far, total disbursements from the Bank's interventions in the wake of the COVID-19

pandemic amounted to N3.5 trillion including: Real Sector Funds, (N216.87 billion); COVID-19 Targeted Credit Facility (TCF), (N73.69 billion); AGSMEIS, (N54.66 billion); Pharmaceutical and Health Care Support Fund, (N44.47 billion); and Creative Industry Financing Initiative (N2.93 billion). Under the Real Sector Funds, a total of 87 projects that included 53 Manufacturing, 21 Agriculture and 13 Services projects were funded. In the Health Care sector, 41 projects which included 16 pharmaceuticals and 25 hospital and health care services were funded. Under the Targeted Credit Facility, 120,074 applicants have received financial support for investment capital. The Agri-Business/Small and Medium Enterprise Investment Scheme (AGSMEIS) intervention has been extended to a total of 14,638 applicants, while 250 SME businesses, predominantly the youths, have benefited from the Creative Industry Financing Initiative. In addition to these initiatives, the CBN is set to contribute over N1.8 trillion of the total sum of N2.30 trillion needed for the Federal Government's 1-year Economic Sustainability Plan (ESP), through its various financing interventions using the channels of Participating Financial Institutions (PFIs). The MPC is, thus, using this medium to appeal to our important economic stakeholders to take advantage of these intervention initiatives to help support a quick rebound in growth.

The Bank's policy on Loan to Deposit ratio also resulted in a significant growth in credit to various sectors from N15.57 trillion to N19.33 trillion between end-May 2019 and end-August 2020, an increase of N3.77 trillion. This growth in credit was mainly to manufacturing (N866.27 billion), consumer credit (N527.65 billion), oil & gas (N477.65 billion), agriculture (N287.11 billion) and construction (N270.97 billion).

On Monetary Aggregates, broad money supply (M3) rose to 6.93 per cent (year-to-date) in August 2020 from 5.23 per cent in July 2020, reflecting the increase in both Net Foreign Assets and Net Domestic Assets. Similarly, aggregate domestic

credit (net) grew by 6.94 per cent in August 2020 compared with 9.43 per cent in July 2020.

Money market rates remained relatively stable in the review period with some mild volatility, reflecting the prevailing liquidity conditions in the banking system. The monthly weighted average Inter-bank call rate increased to 7.38 per cent in August 2020 from 6.25 per cent July 2020, while the Open Buy Back (OBB) rate decreased to 8.39 per cent in August 2020 from 10.12 per cent in July 2020.

The MPC noted the moderate improvement in the equities market in the review period, as the All-Share Index (ASI) increased by 5.78 per cent from 24,174.75 on July 21, 2020 to 25,572.57 on September 18, 2020. On a year-to-date basis, however, the ASI decreased by 4.73 per cent compared with 26,842.07 as at December 31, 2019. Market Capitalization (MC) also increased by 5.98 per cent from N12.61 trillion to N13.36 trillion over the same period. As a lead indicator, therefore, this improvement in market indices signposts the commencement of a broad-based economic recovery.

The Committee also noted the decrease in the NPLs ratio to 6.1 per cent at end-August 2020 compared with 9.4 per cent in the corresponding period of 2019 due largely to recoveries, write offs and disposals.

The Committee expressed confidence in the overall stability of the banking system as reflected in the positive performance of the financial soundness indicators (FSIs), despite the persistence of the COVID-19 pandemic. It however, called on the Bank to sustain its regulatory oversight on the industry in the light of the continued fragility of macroeconomic indicators and the impact of the COVID-19 pandemic and the growing risk of cyber-attacks on business and economic activities.

On the external sector, the Committee noted the resumption of sales to Bureaux de Change (BDCs) in a bid to improve liquidity and ease demand pressure in

the foreign exchange market. Consequently, the exchange rate appreciated at all windows. The MPC observed the recent improvement in external reserves and urged the Bank to maintain its prudent allocation of foreign exchange towards balancing supply and demand.

Outlook

The broad outlook for the global recovery remains uncertain, as the headwinds associated with the COVID-19 pandemic persist, especially due to new indications of a second spike in the rate of infections, continues to dampen prospects of a near term recovery.

With several economies contracting deeper than expected, the global economy may eventually contract beyond the -4.9 per cent earlier projected by the IMF, as the second-round spike in the infection rate has resulted in widespread localized lockdowns in some advanced and emerging market economies. In addition, the persisting volatility in global oil prices, which is likely to continue beyond the end of 2020 as indicated by the deliveries in the oil futures market, signposts the likelihood of a disorderly global recovery.

The synchronized monetary policy accommodation by major central banks in both the Advanced and Emerging Market Economies, portends the likelihood of a medium-term debt crisis which may set the global economy into another downturn, if not properly managed.

On the domestic economy, staff forecast suggests that the economy may continue to grapple with the effects of the pandemic throughout the rest of the year. With persistent focus on activities meant to reverse the contraction, the MPC projects growth at positive levels in Q4 2020, or at the latest by Q1 2021, based on the anticipated positive results from the coordinated and sustained interventions by both the monetary and fiscal authorities. These interventions include, the coordinated response of the monetary and fiscal authorities to

curtail the spread of the COVID-19 pandemic, reverse the downturn in the economy, improve sources of revenue in the non-oil sector and encourage the build-up of fiscal buffers.

The Committee's Considerations

The Committee's considerations focused on the major headwinds exerting downward pressure on output growth and upward pressure on domestic prices.

The key factors considered by the MPC as likely to exert upward pressure on domestic prices in the near term include: the prevalence of security challenges in the country; adverse weather conditions causing flooding in some farming regions; the increase in petroleum pump price; deregulation in electricity tariff; low crude oil price; and exchange rate adjustment.

The Committee noted that available evidence does not support the view that the rise in inflation was due to monetary factors. Rather, there is overwhelming evidence that the inflationary pressure reflects the prevalence of structural rigidities and supply shocks. Hence, the traditional tools of monetary policy may not be helpful in addressing current inflationary pressures. Instead, the useful policies will be the supply-side measures implemented by the Bank. In the light of this, reducing MPR will signal to the Deposit Money Banks to lend more to stimulate growth, increase aggregate supply, which should dampen prices in the immediate term.

Although the MPC remains committed to its primary mandate of ensuring price stability, it however, noted the need to address the structural supply-side issues that are putting upward pressure on production cost and depressing economic growth. To this end, the Committee supports the various intervention programmes of the Bank towards stimulating production in the agricultural and manufacturing sectors to increase aggregate output and lower prices.

On Financial Markets, the Committee considered the impact of the dwindling capital inflows on yields in the equities, bonds and money markets. It, however, observed the improvement in the equities market from the second quarter of 2020, indicating prospects of medium-term economic recovery. Members also took cognizance of the prevailing low rates in the money market which are also below the lower band of the standing facilities corridor, as being a distortion to money market operations.

The Committee noted the increase in aggregate credit and encouraged further expansion in credit to employment-generating sectors to expedite growth recovery. It, however, urged the Bank to sustain its regulatory surveillance over the banking system to ensure that Non-Performing Loans (NPLs) remain low.

The Committee also noted the rising public debt profile and urged the fiscal authority to strengthen its debt management strategy, explore other sources of revenue, as well as enhance efficiency in public expenditure. It commended the combined effort of the Federal Government and the CBN in providing the required stimulus to contain the pandemic and ease its impact on the Nigerian economy.

The Dilemma of Monetary Policy

The MPC was at this meeting confronted by policy dilemma. Whereas MPC believes in the primacy of its price and monetary stability mandate, it nevertheless was confronted with what policy direction to focus on, given the contraction in output growth during the second quarter of 2020, which may lead to a recession, if the third quarter of 2020 output growth numbers further show a contraction. It is, therefore, of the view that, if a recession occurs in Q3 2020 the Committee would be confronted with proposing policy options in a period of stagflation. This is because, with the recent removal of subsidy on fuel price, the increase in energy prices, and the adjustment of the exchange rate,

inflationary pressure will no doubt persist unless MPC consider options that will deal with the pressure aggressively.

The Committee was therefore of the view that, to abate the pressure, it had no choice but to pursue an expansionary monetary policy using development finance policy tools, targeted at raising output and aggregate supply to moderate the rate of inflation.

At present, fiscal policy is constrained and so cannot, on its own lift the economy out of contraction or recession given the paucity of funds arising from weak revenue base, current low crude oil prices, lack of fiscal buffers and high burden of debt services. Therefore, monetary policy must continue to provide massive support through its development finance activities to achieve growth in the Nigerian economy. This is the reason MPC will continue to play a dominant role in the achievement of the goals of the Economic Sustainability Program (ESP) through its interventionist role to navigate the country towards a direction that will boost output growth and moderate the level of inflation.

Similarly, given that the currency adjustment was a causal factor in determining the price of petroleum products and energy prices, the MPC believes that the CBN management must take bold actions to stabilize the exchange rate. Management was further enjoined by the MPC to continue to provide funding to sectors that will resolve the supply constraints in petrol pricing, energy pricing and food availability.

To support household consumption, the MPC enjoined management to aggressively channel its funding to targeted households, SMEs and consumer credit by further increasing its lending activities through its NIRSAL Microfinance Bank (NMFB). The Management was also directed to ensure that DMBs respond to the reduction in deposit rates by aggressively lowering cost of credit to borrowers.

As regards output growth, MPC noted that air and road transportation; entertainment & accommodation; food services; and education subsectors were adversely affected by the lockdown. It therefore suggested that more efforts be put in place to continue to provide relief and funding to these subsectors to catalyze growth and improve the output numbers.

Dealing with The Causal Factors of Inflation

In the view of the MPC, so far, evidence has not supported the rising inflation to monetary factors but rather, evidence suggests non-monetary factors (structural factors) as the overwhelming reasons accounting for the inflationary pressure.

Accordingly, the implication is that traditional monetary policy instruments are not helpful in addressing the type of inflationary pressure we are currently confronted with. What is useful is the kind of supply side measures currently being implemented. MPC also expects that a downward adjustment in MPR may be necessary to further put pressure on our deposit money banks to lower cost of credit in aid of growth.

The Committee's Decision

In the face of declining economic growth and rising inflation, the Committee faced a difficult set of policy choices, requiring trade-offs and sequencing.

Following the above considerations, the Committee reviewed the choices before it, bearing in mind its primary mandate of price stability and the need to support the recovery of output growth. Consequently, the Committee noted that the likely action aimed to addressing the rise in domestic prices would have been to tighten the stance of policy, as this will not only moderate the upward pressure on prices, but will also attract fresh capital into the economy and improve the level of the external reserves. It however, noted that this decision

may stifle the recovery of output growth and thus, drive the economy further into contraction.

On easing the stance of policy, the MPC was of the view that this action would provide cheaper credit to improve aggregate demand, stimulate production, reduce unemployment and support the recovery of output growth. The Committee, however, observed that with inflation trending upwards, easing of the policy stance may exacerbate the current inflationary pressure through an increase in money supply. In addition, the MPC noted the tendency of an asymmetric response to downward price adjustments by 'Other Depository Corporations', thus undermining the overall beneficial impact of a reduction to the cost of capital.

In the Committee's view, a hold position will allow the economy to adjust to the ongoing stimulus measures put in place by the monetary and fiscal authorities to curb the downturn and allow more time for the MPC to assess their impact on the economy.

After the consideration of the three policy options, Members were of the opinion that the option to loosen will complement the Bank's commitment to sustain the trajectory of the economic recovery and reduce the negative impact of COVID-19. In addition, the liquidity injections are expected to stimulate credit expansion to the critically impacted sectors of the economy and offer impetus for output growth and economic recovery.

In view of the foregoing, the Committee decided to reduce the MPR by 100 basis points to 11.5 per cent and adjust the asymmetric corridor to +100/-700 around the MPR.

Six (6) members voted to reduce the MPR by 100 basis points, one (1) member by 50.0 basis points and three (3) voted to hold. Nine (9) members voted to change the asymmetric corridor while one member voted to hold.

All members voted to hold the Cash Reserve Ratio (CRR) and Liquidity Ratio (LR).

In summary, the MPC voted to:

- I. Reduce the MPR by 100 basis points from 12.5 to 11.5 per cent;
- II. Adjust the asymmetric corridor from +200/-500 basis points to +100/-700 basis points around the MPR;
- III. Retain the CRR at 27.5 per cent; and,
- IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emeefiele Governor, Central Bank of Nigeria

22nd September, 2020

PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS

1. ADAMU, EDWARD LAMETEK

The global economy continues to be heavily challenged by the fallouts of the COVID-19 pandemic and commodity price volatility. Although economic activity has resumed in all parts of the world and fast regaining momentum, the effects of the extreme measures deployed to counter COVID-19 would take a bit of time to dissipate fully. In fact, second quarter 2020 output figures for most countries showed higher magnitudes of contraction than expected. Amidst high risks and uncertainty, the Organization for Economic Cooperation and Development (OECD) sees global growth contracting by about 4.5 per cent while the International Monetary Fund (IMF) now projects a 4.9 per cent contraction in 2020 with prospects of early recovery in 2021. Both institutions (IMF and OECD) agree that building confidence will be crucial for early and robust recovery.

Already, global trade, one of the major casualties of COVID-19 lockdowns and movement restrictions, has commenced recovery – it grew from -12.3 per cent in April 2020 to 7.6 per cent in June 2020. Businesses have remained broadly cautious of the possibility of a second-round pandemic even as production lines and supply chains are rapidly reopening. Meanwhile, commodity exporting countries continue to face additional uncertainty arising from commodity price instability. For Nigeria, low and volatile oil prices continue to be a major cause for concern, just as it is for most OPEC Member Countries. Across the globe, public budgets have been thrown into massive deficits and pressure on monetary authorities for accommodation has intensified, especially in emerging markets and developing economies (EMDEs).

Global inflation has remained muted, reflecting mainly, below-target-inflation in advanced economies especially, which has made it more convenient for central banks in those economies to sustain massive injections of liquidity. In the group of emerging market and developing economies, inflation pressures have tended to grow largely on account of depreciating exchange rates and rising energy costs in some cases. Nonetheless, most central banks in this clime, including the Central Bank of Nigeria (CBN), have continued to support demand and confidence by preventing a tightening of financial conditions.

It must be emphasized that the current domestic economic slowdown is not the regular boom-burst cycle of activity; in fact, the Nigerian economy was barely recovering from the 2016 slowdown when COVID-19 struck. The consequential lockdown and movement restrictions suddenly halted most economic activities. Yet, even as activity should logically resume in the affected sectors as the lockdowns and movement restrictions are eased, there is no gain saying that some kind of fiscal push will be required. However, owing to the narrow fiscal space at the present, the greater burden of providing that critically needed support has to be borne by the CBN, very much like most monetary authorities have done and are still doing. There are preliminary indications that the development finance interventions by the Bank are having the desired effect and should therefore, be sustained and possibly deepened in the short- to medium-term.

Nevertheless, we must admit that in some ways COVID -19 has significantly altered the way we live and conduct economic activity/ business and some of its consequences might remain for a while. There will be lasting consequences for employment, production cost and how economic agents engage resources, even under the best circumstances of early vaccine plus a cure. To the extent that inflation and exchange rate pressures are part of the domestic policy

challenge today, I felt the need to exercise some caution in terms of the deployment of core monetary instruments at the September 2020 meeting of the Monetary Policy Committee (MPC).

There is no doubt, ensuring adequate liquidity in the system continues to be vital for output recovery; as such, the effort of the CBN in this respect needs to be complemented by positive actions by banks. I, therefore, saw clearly the need to expand the interest rate corridor as part measures to reduce the incentives of banks to dump their excess reserves at the CBN's Standing Deposit Facility (SDF). I was, however, less inclined to deploy the monetary policy lever, full throttle, at the September 2020 meeting owing to some considerations.

First, headline (year-on-year) inflation has maintained an upward trend in over 10 months. It rose to 13.2 per cent in August 2020, driven mainly by food inflation, which rose to 16.0 per cent. Juxtaposed on rising month-on-month inflation and a worsening outlook for core inflation, a change in direction of headline inflation doesn't seem likely in the next 2 to 3 months. Although much of the current inflationary pressures may be attributed to non-monetary factors, non-targeted monetary expansion may not be very helpful either. It could, in fact, become problematic down the road.

Second, several policy measures which the CBN had implemented prior to, and since the outbreak of COVID-19, have continued to have tremendous effect. In particular, the Differentiated Cash Reserves Requirement (DCRR) and the minimum Loan-to-Deposit Ratio (LDR), have ensured a significant stream of credit to the real economy. As at end-August 2020, aggregate bank credit had risen by about N3.7 trillion relative to its level in May 2019, when the LDR policy was introduced. The outlook for credit to the economy remains positive given that these policies are still in place and, importantly, that the banking industry continues to be resilient. In fact, the industry's non-performing loans ratio further

declined in August 2020 to 6.1 per cent from 6.4 per cent in July, while capital adequacy ratio (CAR) rose to 15.3 per cent from 14.6 per cent in July.

Third, the demand pressure in the foreign exchange market has remained elevated in the face of declining accretion to external reserves and declining private inflow. Related to this is the pressure on the balance of payments. The current account deficit could grow as the economy reopens and imports of raw materials and the critically needed medical consumables and equipment resume. Beside legitimate sources of foreign exchange demand, speculation and other frivolous demands have contributed to sustaining pressure on the naira exchange rate. In all instances, the demand for foreign exchange thrives on naira liquidity. It is therefore pertinent to properly guide the flow of liquidity to those activities/sectors that promote growth and employment using instruments that can target productive activities, rather than those that ease credit creation generally.

I have no doubt in my mind that the surest path to early recovery would entail, amongst others, significant financial support to the health system to enable it cope with the COVID pandemic. The CBN is already leading the way with dedicated interventions in the health sector, which may be ramped up with the collaboration of the private sector and government at all levels. I should emphasize that there are no quick fixes for the economic challenge Nigeria and most countries currently face. In climes where the problem is limited to slowing output and employment, the pathways are much clearer. However, in a more complex situation such as Nigeria faces with rising inflation and weak external position, I would rather lean more towards instruments that target the real economy such as the Bank's development finance interventions, LDR and DCRR, which have all proved to be reliable and quicker in effect.

I am fairly optimistic, given the roll back of lockdowns and movement restrictions, the gradual reopening of the economy and the broad based

activity support by the CBN and the government's Economic Sustainability Plan (ESP) that real output growth in Q3 and Q4 2020 would be better than recorded in Q2 2020. Against the foregoing, I voted to retain all other policy parameters apart from the interest rate corridor while urging the Federal Government to speed-up implementation of the ESP and the Bank to sustain its intervention actions in support of economic activity. Finally, let me emphasize that the challenge posed by rising food prices demands action beyond monetary policy and/or catalytic interventions in agriculture. As I have noted in some of my previous statements, farm insecurity and food distribution bottlenecks need to be addressed holistically to ease food prices across the country on a sustainable basis.

In summary, I voted to:

- I. Adjust the asymmetric corridor from +200/-500 basis points to +100/-700 basis points around the MPR;
- II. Retain the MPR at 12.5 per cent;
- III. Retain the CRR at 27.5 per cent; and
- IV. Retain the Liquidity Ratio at 30 per cent.

2. ADENIKINJU, ADEOLA FESTUS

International Economic Development

Global economic recovery remains fragile, in spite of improving prospects. Fear of second wave of coronavirus is becoming more real with recent upsurge in reported cases, which may reverse or slowdown pace of reopening in seriously infected countries. Until there is a vaccine and it is widely deployed, uncertainty will continue to affect confidence in global economic recovery. Monetary policy remains soft in most countries, as global inflation is largely muted. The rise in global debt due to rise in public spending as part of stimulus plans and fall in output growth may pose major problems for sustained recovery in the medium term.

Global trade is projected to remain below pre-pandemic level throughout 2020. Oil price remains volatile although within a narrow band of upper US\$30s to mid-US\$40s/barrel. This volatility will continue as the market tries to balance demand and supply forces. Development in global oil market is very important to how Nigeria will recover from Covid-19.

As countries continue to stimulate their economies, many of them now have negative real policy rates. Countries with negative real policy rates include Brazil, USA, Japan, Euro Area, India and the UK. Many countries have experienced significant currency depreciation against the dollars.

Domestic Economic Performance

Presentations by the Staff of the Bank on the “Banking System Stability Review” and the “Economic Report” painted mixed pictures of the domestic economy. The Financial Soundness Indicators (FSI) show that the Nigerian financial system remain strong and resilient. The NPLs ratio improved slightly from 6.4% in July 2020 to 6.1% in August 2020. The Return on Equity (ROE) and Return on Assets (ROA) at 21% and 1.9% continue to outpace those of comparator countries. Interest

margin to total operating income however declined sharply from 67.6% in July 2020 to 63.2% in August 2020. Aggregate banking credit also grew since the last meeting of the MPC in July.

The CBN recorded impressive progress in the disbursement of intervention funds to support the economy during Covid-19. The Healthcare Credit Support of N100billion has been drawn down by N44.47 billion to support 41 Projects in the healthcare sector. Also, N73.685billion has been disbursed under the Targeted Credit Facility (TGF) fund of N100billion to 120,074 beneficiaries. In addition, over N216.878billion have been disbursed out of N1 trillion to fund 87 real sector projects in manufacturing, agriculture and services.

However, while the Deposit Money Banks (DMBs) are doing relatively well, it is important to continue to provide strong oversight on the Other Financial Institutions (OFIs). They should be used as important channels to disburse some of the Bank's intervention funds especially to households and small businesses.

Real GDP declined by -6.1% in Q2, 2020. This is not unexpected given the impacts of the lockdown and Covid-19 on the economy. However, there were mixed impacts on the sectors of the economy. Some sectors like agriculture, telecommunication, broadcasting, financial institutions, motor vehicles and assembly, coal mining, chemicals and pharmaceuticals, wastes, supply, sewage and waste management reported positive growth rates in Q2, 2020. However, more sectors of the economy recorded negative growth rates. Sectors that recorded over 10% decline in Q2, 2020 included oil refining, textiles, apparel and footwear, pulp, paper and paper products, wood and wood products, non-metallic products, construction, accommodation and food services, transportation, publishing, insurance, real estates, and education.

All measures of inflation rose in August. Headline inflation (y-o-y) rose 13.22% in August 2020 up from 12.82 in July 2020. Core inflation (y-o-y) rose to 10.52% in

August 2020 from 10.10% in July 2020. Also, food inflation rose to 16.00% up from 15.48%. Drivers of inflation rate are; increase in good and non-alcoholic beverages, transport, processed food and farm produce, clothing and footwear, housing, education, water, gas and other fuel, restaurant, hotel and other miscellaneous goods and services. As the economy emerges from the effects of the lockdown, some of these elements of costs are likely to trend downwards.

Unemployment rate rose to 27.1% in Q2, 2020 up from the from 23.1% recorded in Q3, 2018. Similarly, underemployment rate rose to 28.6% in Q2, 2020 from 20.1% in Q3, 2018. Both unemployment and underemployment rates were highest among the youths.

The equity market recorded positive development. The Nigerian All-Share Index gained 5.5% between July 21, 2020 and September 18, 2020, signifying renewing investors' confidence in the economy. Between July 2020 and September 2020, Naira appreciated in the I&E window but depreciated in the BDC window.

The fiscal system continues to pose significant challenges arising from current underperformance of government revenue, unrestraint growth in government recurrent expenditure, underperformance of capital expenditure and rising debt service ratio. Debt service rate rose to 84.1% of government revenue between January and August 2020 compared to 51.5% in January to August of 2019.

My Consideration

Covid-9 has brought contraction in Aggregate Demand and Aggregate Supply due to its direct effects as well as public policy put in place to control its spread in the economy. Unemployment as well as income cuts and impacts of lockdown have direct effects on nominal income. The rising inflation rate and increase in energy prices have impacted negatively on real incomes. Fall in Aggregate Supply arising from decline in labour productivity, fall in capacity

utilization, restriction on transportation, closure of some businesses, flooding in agricultural producing areas compounded by security challenges in multiple fronts have significantly impacted on aggregate supply and drove up inflation.

In addition, some of the current policy intervention measures have targeted aggregate supply and not adequate support for aggregate demand. We know that households' consumption constitutes over 70% of GDP. However, with the loss of jobs, loss of income, salary cuts, etc., as well as shocks to energy prices, food prices etc., there is a need for more stimulus to support aggregate demand and prevent unwanted inventory accumulation. The widened output gap provides some leeway to expand aggregate demand without major inflationary push. Negative output gap expands from -2.81% in Q1, 2020 to -9.1% in Q2, 2020. I do not think excess aggregate nominal demand is the fundamental cause of current inflationary pressure in Nigeria.

The Nigerian economy is still in a very bad shape with negative growth of -6.1% in Q2 2020 and fear of negative growth in Q3 2020. The probability of a recession in 2020 is quite high. While the PMI and employment PMIs are trending upwards, the economy still needs further support. Fiscal authorities should frontload some of the key intervention funds under the Economic Sustainability Plan to support households and businesses at this very critical moment.

The DMBs can do a lot more to pass on the low costs of funds to retail lenders in form of lowering of lending rates and to also boost consumer credits. The gap between savings rate of 2.78% and maximum lending rate of 29.51% in August 2020, is very high and should be significantly narrowed.

We need to diversify foreign exchange supply to the economy. While measures to curb speculative, and even precautionary demand for foreign exchange is important, a more beneficial long term goal should be to expand the number of domestic projects and economic activities that generate more foreign

exchange or that are import substituting. There are currently very limited investible options for domestic economic agents. Banks need to create more products that will utilize the liquidity in the economy.

CBN is currently involved in a number of intervention programmes to address the current fundamentals of inflation in Nigeria:

- Agricultural intervention to boost agricultural output and reduce foodstuff prices
- Energy interventions to support solar companies, electricity distribution companies and
- Support for refineries for domestic markets
- Improved stability in the foreign exchange markets

However, we need to complement these various initiatives to boost domestic aggregate supply and aggregate demand.

Decision

Given all of the above, I have no doubt that we need to do a lot more to support the flagging economy and reduce the probability for another recession in Nigeria. Hence, I cast my vote at this meeting to:

1. Reduce the MPR by 100 basis points to 11.5%
2. Retain CRR at 27.5%
3. Maintain Liquidity ratio at 30%
4. Adjust the asymmetric corridor around the MPR at -700+100 bases points

3. AHMAD, AISHAH N.

The September 2020 MPC meetings held against the backdrop of a global economy reeling from the impact of the COVID-19 pandemic on aggregate demand, output, crude oil prices, trade and financial markets. Output in the advanced economies contracted sharply (q-o-q) in Q2 2020 - US -31.7 per cent, UK - 20.4 per cent (the largest fall since 1955), Japan - 7.8 per cent; whilst emerging markets - save for China which grew 11.5 percent - did not fare much better. Although the health impact has been less virulent than expected in Africa, even as some countries brace for a 'second wave', the continent's domestic economies and fiscal financial conditions have taken a huge bashing.

Domestic economy firmly in the eye of the covid-19 economic storm

- I. **Real GDP contracted** by 6.10 per cent (y-o-y) in Q2 2020, reflecting the impact of the lockdown on economic activity and effectively ending the three years of positive growth since the economy exited a recession in Q2 2017. Particularly hit was the Industry (primarily manufacturing) and Services components of non-oil GDP, which contracted by 2.44 and 4.01 percentage points respectively. Agriculture (driven by crop production) posted a marginal growth of 0.40 percentage points reflecting the impact of the agricultural interventions of the CBN.
- II. Business sentiment remained weak as shown in the Manufacturing and non-Manufacturing Purchasing Managers Indices, which stayed below the 50.0 points benchmark at 48.5 points and 44.7 points respectively, in August 2020. Besides, unemployment rate rose to 27.1 per cent in Q2 2020 from 23.1 per cent in Q3 2018, indicating dampened aggregate demand.
- III. The **rising trend in domestic prices** also persisted as headline inflation (y-o-y) rose to 13.22 per cent in August 2020 from 12.82 per cent in July 2020, driven largely by an increase in the food component, which rose to 16.00

per cent in August 2020 from 15.48 per cent in the previous month. Core inflation also increased to 10.52 per cent, from 10.10 per cent over the same period. The traditional structural drivers of inflation – weather conditions and insecurity - were exacerbated by disruptions to supply chains and a growing food supply gap due to the pandemic. Other shocks such as the VAT increase to 7.5 per cent, deregulation in premium motor spirit (PMS) prices and increase in electricity tariff, alongside pass-through from the exchange rate adjustment, are also expected to trigger further uptick in prices over the short to medium term.

IV. Following the exchange rate adjustment in March 2020, the Bank continued to focus on curtailing spurious demand and speculative activities whilst improving FX supply even as foreign portfolio inflows recovered marginally in Q2 2020. As international flights and sales to the I&E and BDC segments resume, it continues to prioritize manufacturing-related FX demand; for equipment, machinery and other inputs required to bolster domestic production.

Whilst the balance of payments improved marginally from US\$-4.88 billion in Q1 2020 to US\$-3.23 billion Q2 2020, it remained in deficit, reflecting high import bills which has implications for exchange rate stability and Nigeria's competitiveness. Nonetheless, with crude oil prices currently hovering around US\$40/b, US\$12 above the budget benchmark of US\$28/b, some accretion to external reserves is expected, which provides support for the Bank's foreign exchange management policies.

V. Six months into the pandemic, the **financial system continued to show resilience** with soundness indicators retaining their robustness, amidst regular stress testing by the CBN. Non-performing loans ratio declined to 6.1 per cent in August 2020, from 6.4 per cent in the previous month,

capital adequacy improved to 15.3 per cent from 14.6 per cent over the same period even as net interest margin remained robust.

Focused implementation of the Loans to Deposit (LDR) policy over the last year continues to promote credit growth to the real sector and lower deposit and lending rates, - which supported banks' net interest margins. For instance, credit to the economy increased by N3,766.08 billion from N15,567.66 billion at end-May 2019 to N19,333.74 billion at end-August 2020, with significant growth recorded in manufacturing, consumer credit, general commerce and agriculture. Staff reports presented at the meeting also show prime lending rates declined (15.40 per cent in August 2019 to 11.76 per cent in August 2020), in sync with money market rates (1year NTB rate from double digit in 2019 to 3.30 per cent in August 2020) and Open Buy Back rates (from 12.35 per cent in August 2019 to 8.22 per cent in August 2020). This lower interest rate environment coupled with improved credit conditions survey which indicated that more households are accessing finance presents an opportunity to further increase credit to the real economy at lower cost, critical to driving the much-needed recovery.

The industry however remains exposed to macroeconomic fragilities, given the uncertain business environment, exchange rate fluctuations and other spillover effects of the pandemic. Thus, the Bank must sustain its vigilance and deploy its prudential tool kit as required to ensure the sector continues to support the domestic economic recovery.

Complementary fiscal and monetary measures paramount for a quick recovery

Low oil prices, muted fiscal revenues and significant debt service obligations have dramatically restricted the already fragile fiscal space. Further fiscal adjustments will be required to curtail rising public debt and budget deficits, in

addition to prioritization of government spending to support the Economic Sustainability Plan (ESP).

For optimum benefits to the economy, monetary policy instruments can only compliment policies in other sectors of the economy to deliver broad based economic prosperity. The structural impediments to growth and job creation, particularly poor infrastructure, can be improved upon via speedy implementation of the ESP.

Indeed, aspects of the plan which seek to improve non-oil government revenue and reduce non-essential spending are vital and reinforces the importance of prioritizing government expenditure to support social infrastructure, including but not limited to health, education and security, to help drive economic growth prospects.

The Bank must support these fiscal efforts by sustaining its;

- intervention policies particularly in the Agricultural sector, which will be critical to strengthen output and curtail food inflation;
- COVID-19 monetary stimulus measures and other initiatives designed to channel credit to critical sectors such as agriculture, manufacturing and small businesses;
- implementation of the minimum Loan to Deposit Ratio Policy (LDR);
- vigilance over the banking sector to preserve its strength, resilience and capacity to support the economy; and
- support for Small and Medium Enterprise (SMEs) to mitigate their exposure to adverse impacts of the pandemic. Notably, the Agri-Business/Small and Medium Enterprise Investment Scheme (AGSMEIS) intervention has been extended to a total of 14,638 applicants, while 250 predominantly youth-

owned SME businesses, have benefited from the Creative Industry Financing Initiative as part of the COVID-19 response initiatives.

Policy Decision: Difficult tradeoffs for global monetary policy

It is important to state that the primary mandate of monetary policy to maintain price stability remains sacrosanct. However, policy makers globally are confronted with very hard choices in the wake of the devastating economic effects of the coronavirus pandemic. This unprecedented shock relatively soon after the Global Financial Crisis – which the global economy had not fully recovered from – is creating shifts in orthodox approaches to achieving monetary policy objectives. The US Fed for instance has embarked on massive quantitative easing measures and recently changed to a more flexible inflation targeting framework of an **average** of 2 percent over the long-term, to accommodate short term fluctuation in domestic prices in a bid to drive economic recovery. Monetary policy may not therefore, in good conscience ignore the need to support growth objectives at this critical moment. Whilst it cannot jettison its mandate, it should be seen to ‘do no harm’ and not exacerbate the current severely muted economic environment.

In my July 2020 statement, I emphasized the need to support growth given the weak outlook for economic activity, mainly from sluggish consumption demand and a constricted fiscal environment. My conviction about the merit of easing the monetary policy stance is further strengthened by the sharp contraction in Q2 2020 output, rising unemployment, amidst low fiscal revenue and rising public debt. More so, domestic yields have declined significantly providing an opportunity to align the monetary policy rate to market developments.

While I acknowledge the upward trend of inflation, its key drivers remain largely structural rigidities and supply shocks which will hopefully be contained by

measures currently implemented by the Bank. Therefore, an expansionary monetary policy stance at this critical moment, signals strong support for growth to help reverse the economic downturn.

Thus, I vote to lower the monetary policy rate (MPR) by 100 basis points from 12.5 per cent to 11.5 per cent; expand the corridor around the MPR from +200 and -500 basis points to +100 and -700 basis points; retain the CRR at 27.5 per cent and the LR at 30 per cent.

4. ASOGWA, ROBERT CHIKWENDU

Decision:

The Nigerian Economy appears to be regaining some vigour even though the outlook at this September 2020 MPC meeting remains subject to considerable uncertainty as output projections are still dependent on assumptions about the spread of covid-19 and the recovery of oil prices. The third and fourth quarters are likely to be better in terms of GDP growth as firms and households resume economic activities, boosted by the various fiscal, monetary and structural support measures from government. Whilst the rising inflationary trend is a source of concern which in normal times may warrant a halt in the cycle of easing, the burden of boosting economic activity and post-COVID recovery still requires considerations of extending additional support to households and businesses. As such, a policy of continued monetary and fiscal policy easing will be appropriate to counter any downward pressure on the economy even from threats of a second wave pandemic.

I will thus vote to:

- Reduce the MPR to 11.5 %
- Retain the CRR at 27.5%
- Adjust the Asymmetric Corridor to +100/-700 basis points
- Retain the Liquidity Ratio at 30.0%

Global Economic Outlook marred by Waves of Uncertainty.

Economic growth figures for the second quarter of 2020 have been published in most economies across the globe and in virtually all of them, output collapsed in the first half of 2020 with declines of more than one-fifth in several advanced and emerging market economies. Recent data point to a stronger third quarter performance as economies emerged from the lockdown, but the pace of global recovery is already losing momentum and marred by uncertainties, from

the waves of a second round of coronavirus infections, to rising new geopolitical tensions- particularly relations between China and the West.

The new prediction is that the road to full recovery may be long and for many countries, even in the developed markets, output may unlikely return to the pre-crisis levels until the early parts of 2022. The magnitude of output contractions across countries in the second quarter of 2020 has been varied and in many cases largely dependent on the stringency of the lockdown. CBN staff report show that output growth in the US contracted by -31.7 percent in the second quarter compared with a contraction of -5.0 percent in the first quarter while growth in the Euro Area contracted by -12.1 percent in the second quarter of 2020 compared to a contraction of -3.6 percent in the first quarter. Similarly, output growth in the second quarter of 2020 for the UK economy contracted by -20.4 percent compared with a contraction of -2.2 percent in the first quarter, while for Japan, there was a contraction of -7.8 percent in the second quarter as compared to -0.6 percent in the first quarter.

Recent activity trend in many countries however suggest that the global economy is starting to recover. The latest flash purchasing managers index (PMI) for the manufacturing sector in the Eurozone shows an increase from 51.7 in August to 53.7 in September 2020, which somewhat indicates a growing global demand for Eurozone exports as well as internal demand for durable goods. In the United States, the manufacturing PMI increased from 52.7 in August to 53.3 in September 2020, a number also indicating moderate growth while the services PMI for the USA moved up from 55.0 in August to 54.6 in September 2020. In Japan, the manufacturing PMI fell from 45.8 in August to 45.2 in September, but on a positive side, the services PMI increased from 45.0 in August to 45.6 in September 2020 while all the sub-indices for employment improved. Unfortunately, the expected global output recovery in the third and fourth quarters of 2020 is now being marred by uncertainties from new waves of

coronavirus infections and some geopolitical tensions. The number of new cases has been rising quickly in Spain and France since the end of July 2020, while the number of cases in the UK began to climb at the beginning of September. Besides the uncertainties related to a second wave of coronavirus, global trade and supply chains are projected to face additional challenges in the fourth quarter of 2020 and even beyond due to rising geopolitical tensions especially the growing number of China related conflicts as well as Brexit Uncertainty. Several countries appear to have launched new policy measures against China. Recently India and USA banned Chinese apps, while the US introduced sanctions on 24 Chinese firms responsible for construction in the South China Sea. Australia, Japan and India have all started a Supply Chain Resilience initiative to decrease their supply chain's reliance on China. Related to this, is the risk of a no-trade deal Brexit which is real as the current status quo will end by December 31, 2020.

On Inflation, the global picture looks more stable and muted today than in previous years but rates present mixed trends for the advanced and developing/emerging economies. In many advanced economies including USA, UK and Japan, inflation has been depressed in recent times as a result of the weakened aggregate demand. In the Eurozone, inflation turned to deflation in August 2020 with consumer prices down 0.2 percent as compared to a year earlier and when the volatile food and energy prices are excluded, core prices were up only 0.4 percent from a year earlier which is the lowest underlying inflation on record. Even in such emerging market economies such as India, China, South Africa and Brazil, inflation rates have been persistently weak, also an indication of the weakening of aggregate demand. In general, even though the near-term outlook for global inflation remain uncertain, for many countries it is likely to be determined by the forces between weak aggregate demand and the economy's impaired supply capacity.

The dominant policy view now is that monetary and fiscal policy support needs to be maintained to preserve confidence, limit uncertainty and support the post-covid 19 recovery process, but evolving with the diverse national economic conditions. In response, many central banks have announced further policy easing in the past three months and several other policy frameworks are being rightly introduced to convince investors that policy rates will be kept reasonably low for a long time. As many advanced countries have limited headroom for monetary adjustments, their recent strategies have mainly involved direct liquidity injections and massive fiscal stimulus for households and businesses. The European Central Bank has recently extended and expanded its assets purchase programme and is likely to place an effective cap on core and peripheral bond yields for the foreseeable future. In the US, the Congress and the White House are currently in discussions to pass another stimulus package to protect households and businesses and this will support current Federal Reserve monetary policy efforts at boosting credit market conditions. The Bank of Japan besides elevated bond buying, introduced a 'Yield-Curve Control' so as to anchor 10-year yields close to zero for the foreseeable future. In New Zealand, the Reserve Bank also continued to anchor yields for an extended period via their quantitative easing/yield curve control programmes whilst indicating plans to move to a negative interest rate policy in early 2021. CBN staff report show that many emerging market central banks including Brazil, Russia, Indonesia and South Africa have recently lowered their policy rates by 25 basis points and even more between July and August 2020.

The Domestic Economic Recovery with growing Risk Factors:

Domestic output contracted in the second quarter of 2020 by -6.10 percent as the COVID-19 pandemic took hold, but not as bad as earlier expected especially in comparison to several advanced and emerging market economies. Not surprisingly, recent data point to better third quarter 2020 result

with a prediction of negative growth but in the low category as output appears rebounding since economic and social activities were lifted. CBN data show that both the manufacturing and non-manufacturing employment indexes recorded marginal improvements in August as compared to July 2020. The strength of the domestic economic recovery in the fourth quarter of 2020 and the first quarter of 2021 will be enhanced largely to absence of a renewed covid-19 outbreak, and the vigour of fiscal and monetary policy response especially the stimulus package in the Economic Sustainability Plan.

There are however, two key risks to the domestic economic outlook; first is that inflation has continued to build even when aggregate demand and output are contracting. Second , is that fiscal vulnerability may be gradually building up as the pandemic throws public finances into partial disarray. Headline inflation increased in August 2020 for the eight consecutive month and the near term outlook for inflation still remains uncertain as current supply disruptions may in a large part push inflation expectation even higher. On the fiscal risk, a funny legacy the COVID-19 pandemic may leave in Nigeria and indeed other developing countries will be an increase in government debt . By end June 2020, Nigeria's public debt stock had risen by 20.65 percent year on year from the levels in March 2020. In reality, the 2020 fiscal budget of most oil exporters have been severally battered by the collapse of oil prices especially in the early part of this Covid-19 and even though oil prices have recently climbed back from lows recorded earlier, they are unlikely to return to pre-pandemic levels even in 2021. As such, the levels of fiscal deficit will likely soar as oil revenues remain the dominant source of national income. Whilst rolling out elaborate fiscal austerity measures may be premature now as this may further weaken the level of aggregate demand in the Nigerian economy, a more forward looking expenditure rationalization and fiscal consolidation strategy will remain key to averting any future devastating debt crisis.

A superficial glance at the banking sector in Nigeria provides some room for cautious optimism that the effect of the pandemic will most likely be behind us in a short period. CBN staff data show that the return on equity for the banking industry only decreased marginally from 21.9 percent in July 2020 to 21 percent in August 2020, while non-performing loans (NPL) ratio decreased from 6.4 percent in July to 6.1 percent in August 2020. This encouraging performance contrasts the recent trend of the banking sector in many economies including China, South Africa and Morocco where profits have fallen sharply due to increases in bad loans. Even though the real economy in Nigeria has not performed well in the second and third quarters of 2020, the good performance of banks within this period, is a key indicator of where the real economy is heading as the sector represents a fundamental driver shaping the economy's exit from the Covid-19 crisis.

5. ISA-DUTSE, MAHMOUD

A. INTRODUCTION

Recent projections by the International Monetary Fund (IMF) indicate that all regions of the world are expected to go into economic recession in 2020 due to the impact of the corona virus pandemic, precipitous decline in oil price, weakened aggregate demand, disruptions in supply chains, amongst others. The resulting crisis has led to a global policy convergence in the direction of promoting growth and curtailing pervasive unemployment. Major Central Banks in both Advanced and Emerging Market Economies have deployed the tools of monetary policy with strong fiscal support to shore up economic activities through massive quantitative easing, special stimulus packages and widespread cut in policy rates. However, the outcome of this accommodative stance is at best sluggish as firms and households continue to exercise caution to obviate the impact of a possible second round of lockdown occasioned by the resurgence of the pandemic in several countries. Moreover, the persisting low price of crude oil remains a daunting challenge for oil exporting developing countries like Nigeria.

B. EXTERNAL ECONOMIC CONDITIONS & IMPLICATIONS FOR NIGERIA

The gradual lifting of COVID-19 lockdown measures across the globe is beginning to impact favorably on production, albeit, small. For instance, the J. P. Morgan Global Composite PMI indicates that the manufacturing output index for consumer goods rose to 50.8 in July 2020 compared with 47.7 and 36.3 in June and May, respectively. Nonetheless, there is broad harmony in the key forecasts for annual global output growth in 2020 which show contraction (IMF - 4.9%, World Bank -5.2% and OECD -7.2%). A quarter-on-quarter analysis of real GDP outcomes for Q2 2020 in some major Advanced Economies shows that: the United States contracted by -31.7%; Euro Area -12.1%; United Kingdom -20%; and Japan -7.8%. Among the Emerging Market and Developing Economies (EMDEs),

China recorded a growth of 11.5% (q-o-q), Brazil -9.7%, South Africa -51.0% and Nigeria -5.0%.

Global trade is on a recovery trajectory from a slump of -12.3% in April 2020 to a respectful growth of 7.6% in June 2020. The upward trend in trade will benefit the Nigerian economy through enhanced sourcing of foreign production inputs and exports. The international price of oil is projected to stabilize at a low level of between US\$40- US\$42/barrel to the end of 2021. With little or no fiscal buffers, this scenario portends serious consequences for macroeconomic stability and growth in Nigeria. The hope of any significant accretions to external reserves appears slim while government revenue in real terms is on the decline. Thus, there is need to pursue with heightened vigour policies that address endemic structural, social and security challenges in the country to create a safe enabling environment for both local and foreign investors. In general, global inflation remains muted and even falling in several countries partly due to favourable crude oil prices for importing countries but Nigeria – an oil-dependent economy – is hurting from declining reserves and currency depreciation which is contributory to the current build-up in inflationary pressure. This situation is aggravated by the net outflow in foreign portfolio investments during the review period.

The global financial market which was characterized by a sharp contraction and extreme volatility on the back of the corona virus pandemic and low oil price has begun to rally following the gradual lifting of lockdown restrictions. The mild recovery is threatened by several downside risks. Although the risk of a global financial market crash appears to be waning, the large debt build-up of over 300% of global GDP is unsettling. If the economic debacle worsens, there could be widespread default in debt obligations by economic agents leading to a crisis which could be transmitted to developing countries like Nigeria through the channels of trade and capital flows.

C. DOMESTIC ECONOMIC CONDITIONS

The low crude oil price combined with COVID-19 containment measures resulted in a sharp decline in aggregate supply and demand as household consumption, business investment, government consumption and exports nose-dived. Not surprisingly, the data on national income accounts released by the National Bureau of Statistics (NBS) for the second quarter of 2020 show that real GDP contracted by -6.10% in Q2 2020 compared with 1.87% growth in the preceding quarter. The national Purchasing Manager's index (PMI) remained weak in August 2020. The Manufacturing and non-Manufacturing PMIs were 48.5 and 44.3 index points, respectively, in August 2020 compared with 42.4 and 43.3 index points in July 2020. Though the monthly PMIs showed improvement in August 2020, they still remained below the 50-index point benchmark. The growth outlook for the second half of 2020 remains quite subdued as CBN Staff forecast predicts that real GDP could contract by -3.91% and -3.52% in Q3 2020 and Q4 2020, respectively. Therefore, it becomes expedient for fiscal and monetary authorities to rigidly implement targeted supply- and demand-side based policies to promote growth.

The inflationary pressure in the Nigerian economy persisted with headline inflation (y-o-y) climbing to its highest peak in the last 29 months. On a year-on-year basis, all measures of inflation – headline, food and core inflation rose to 13.22%, 10.52% and 16.0% in August 2020 from 12.82%, 10.10% and 15.48% in the preceding month. Likewise, on a month-on-month basis, headline, food and core inflation increased to 1.34%, 1.05% and 1.67% in August 2020 from 1.25%, 0.75% and 1.52% in July. The principal driver of headline inflation is food and non-alcoholic beverages while the group comprising housing, water, electricity gas and other fuel came a distant second. Inflationary pressure is expected to worsen in the near term following the recent upward adjustments in the prices of premium motor spirit and electricity. Exchange rate adjustments, persisting

supply shocks arising from security challenges and structural problems in the domestic economy are likely to further aggravate inflationary pressures.

Given the devastating impact of the COVID-19 pandemic on the economy, it is imperative to give more priority to policies that will boost growth and employment. To moderate excessive inflationary pressures, the CBN can continue to use CRR and other complementary tools while supporting the banking system to deliver targeted credit to the economy.

C. VOTING DECISION

With inflation continuing in its upward trajectory during the review period, it may look tempting for the monetary authorities to tighten policy to rein in inflation and reduce further pressure on the exchange rate. However, this option is unattractive given the sharp decline in output in Q2 2020 and likely further contraction in Q3 2020. A middle of the road approach to the conundrum by holding the policy rate constant appears more attractive in comparison to a tightening stance. This to me however will be insufficient to deal with the very worrisome situation we are in, of plummeting output and a worsening level of high unemployment. I therefore voted for a reduction in MPR by 100 basis points from 12.5% p.a. to 11.5% p.a., to reduce the cost of borrowing and encourage investments.

I voted in respect of other policy parameters as follows:

- Adjust the asymmetric corridor to +100/-700 basis points around the MPR.
- Retain the liquidity ratio at 30%
- Retain CRR at 27.5%

6. OBADAN, MIKE I.

As at the time of the 275th meeting of the Monetary Policy Committee, the global economy was still battling with the environment of Covid-19. Significant uncertainties still prevail relating to global growth, trade and getting a handle on the coronavirus. Although notable progress appears to have been made on the development of a vaccine by a sizable number of companies/organisations in some countries, it is still uncertain when a safe and effective vaccine will be certified and available to the majority of the world population. The issue of vaccine has become more pertinent because as most countries gradually relax restrictions on economic activities and travel, the risk of a rebound in the spread of the disease heighten. Indeed, in some countries that appeared to have prematurely eased economic lockdowns, there has emerged second wave of coronavirus. Australia is reported to have re-introduced rather painful lockdown measures. In Europe, the United Kingdom seems not to be getting a handle on the virus and a second-wave lockdown seems likely.

KEY GLOBAL ECONOMIC DEVELOPMENTS

The available growth data show that the pandemic has had more severe impact on global and individual countries' growth than initially expected. The second quarter 2020 output growth turned out to be more negative for a number of countries, especially the advanced countries. In this direction, growth in the Euro area contracted by -12.1 per cent in the second quarter of 2020 compared with a contraction of -3.6 per cent in the first quarter. Among the Emerging Markets and Developing Economies (EMDEs), China seemed to have been an exception. Output growth in that country, in the second quarter of 2020, recovered sharply to 11.5 per cent after it contracted by -10.0 per cent in the first quarter.

Global output growth in 2020 is estimated to contract by - 4.9 per cent, indicating a further downgrade of 1.9 percentage points from the earlier estimated contraction of -3.0 per cent, as the full impact of the Covid-19 pandemic and associated lockdown unfolds. This may, however, change if the likelihood of lockdowns being lifted across several jurisdictions occurs. Similarly, if the various global monetary and fiscal stimulus packages are sustained, the recovery could be largely boosted.

Like growth, global trade remains depressed, thus undermining its impact as an engine of growth. In the first quarter of 2020, global trade experienced a sharp contraction due to the widespread lockdown across the globe. Important too were the disruptions to cross-border migration with the closure of sea, air and land borders. However, world trade resumed early recovery as global trade grew from -12.3 per cent in April 2020 to 7.6 per cent in June 2020. One thing though is that global trade is projected to remain below its pre-pandemic trajectory as uncertainty remains due to the lingering pandemic and trade tensions.

Petroleum oil has remained a crucial determinant of production, growth, revenue and foreign exchange for a number of countries. The recovery of the oil market has remained sluggish while oil prices remain low and volatile amid demand concerns. Although in August 2020, OPEC+ members agreed to reduce the daily production cut of 9.6 million barrels a day to 7.7 million barrels a day on the back of an argument that demand was gradually strengthening, this has not significantly boosted oil prices. The OPEC reference basket monthly average crude oil price increased marginally from US\$ 43.42 in July to US\$43.44 on August, 2020. But by September 18, 2020, crude oil prices per barrel were as follows: OPEC basket, US\$42.07; UK Brent, US\$ 42.75; Bonny Light, US\$42.48; and West Texas Intermediate, US\$40.66. These are low prices compared to the over US\$65.0 per barrel in January, 2020. For the Nigerian economy that depends

heavily on oil for fiscal and foreign exchange sustenance, the implications of continued low oil prices are grave: low fiscal receipts and weak budget performance, public debt build up, foreign exchange and external reserves pressures, capital outflows and pressures in the financial markets.

In light of the continued concerns for global growth and recovery from contraction/recession, countries have continued with aggressive and unparalleled fiscal and monetary injections to reflate their economies and sustain businesses and livelihoods. In the advanced economies, new rounds of fiscal stimulus were injected to moderate the second quarter contraction, mitigate the trough of recessions and return economies to a stable path of recovery. Consequently, fiscal deficits in these economies have widened sharply to a record 16.5 per cent of GDP, 13.0 percentage points higher than in 2019. Central banks have complemented the fiscal authorities by injecting additional liquidity into the economies through asset buy-back and targeted monetary stimulus packages, as well as direct support to financial institutions and corporate enterprises. In the emerging markets and developing economies, fiscal stimulus has reached an estimated 5.0 per cent of GDP. And with Central banks of most advanced economies left with no additional monetary headroom, as policy rates now hover in the zero-lower-bound, direct liquidity injections is now mainly the only tool available to respond to the current macroeconomic challenge and the associated debt crisis. Thus, the priority of most central banks has temporarily shifted somehow from price stability to recovery, growth and employment creation.

KEY DEVELOPMENTS IN THE NIGERIAN ECONOMY

No doubt, the covid-19 pandemic has had serious adverse impacts on key sectors of the Nigerian economy. But the financial sector has shown remarkable

resilience with notable improvements in key financial soundness indicators. The capital adequacy ratio (CAR) and non-performing loans (NPL) ratio have witnessed improvements with NPL ratio declining to 6.1 percent. CAR improved from 14.6 percent on July 20 to 15.3 percent on August 20, 2020, slightly above the prudential benchmark of 15 percent. Although the liquidity ratio has trended downwards (35.76% in August 2020), due to increase in new credit in light of the loans-to-deposit ratio, it is still above the prudential limit of 30 percent. Total assets, deposits and aggregate credits have continued to trend upwards. Another good news is the consistently downward trend of the proportion of bank assets held in government securities: from 23 percent in May 2019 to only 10 percent in August 2020. This is due, among others, to the success of the CBN's directive on loans to deposit ratio which encouraged banks to increase lending to the economy.

However, the economy is highly challenged by three issues: economic contraction and rising unemployment, rising inflation, and weak fiscal position of the government. The external sector is also troubled with weak balance of payments position, capital flows reversal and rising external debt. The stock of external reserves is fairly stable at US\$ 35.75 billion as at September 17, 2020 and can finance about 8 – 9 months imports of goods and services.

Output contraction

After twelve consecutive quarters of positive, but relatively low, growth following Nigeria exit from the recession of 2016/2017, the economy contracted in the second quarter of 2020, thus reversing the 3-year fragile growth witnessed since the end of the 2016 economic recession.

The real GDP contracted by -6.10 per cent in Q2 2020, compared with 1.87 and 2.12 per cent growth in the previous and corresponding quarters of 2019, respectively. Against the backdrop of the disruptions in the global supply chains

and collapse in oil prices during the second quarter, consequent upon the covid-19-induced economic lockdown measures, the Q2 contraction emanated from the challenges faced by both the oil and non-oil sectors. While the non-oil sector contracted by -6.05 percent, the oil sector real GDP contracted by -6.63 percent. Although the Q2 aggregate growth figure is much lower than the double digits experienced by most advanced countries, it is nevertheless a serious setback, coming three years after an earlier recession. Also, very worrisome is the rising unemployment and underemployment rates. National Bureau of Statistics data revealed an increase in unemployment rate from 23.1 per cent in Q3 2018 to 27.1 per cent in Q2 2020. Similarly, underemployment rate increased in Q2 2020 to 28.6 per cent from 20.1 per cent in Q3 2018. The increases arose from the challenging business environment caused by the COVID-19 pandemic and induced lockdown mostly in Q2 2020. Thus, there is a significant subsisting challenge of lifting the economy out of contraction/recession and reducing unemployment in the process.

Rising Inflation

For the eighth consecutive month, inflationary pressure has continued. And now that it has coincided with economic contraction, the result is stagflation in the economy which is a problem that poses a significant challenge to policy makers to deal with. In August 2020, all measures of inflation (headline, core and food) increased. Headline inflation (year-on-year) surged up to 13.22 per cent in August 2020, from 12.82 per cent in July 2020. Core inflation increased to 10.52 per cent in August 2020 from 10.10 per cent in July 2020. Food inflation also increased marginally to 16.00 per cent in August 2020 from 15.48 per cent in July 2020. Although the role of monetary factors is not clear in the current surge in the inflation rate, the recent policy adjustment measures (exchange rate, petrol price and electricity tariffs) cannot be ruled out. And the legacy structural factors have continued to be important, among which are: poor road and

transport infrastructure, food supply disruptions, border closure, insecurity that is currently plaguing the country, particularly in the northern area of the country and increasing fiscal deficit.

Weak fiscal position

Indeed, the fiscal operations of the Federal government in the first half of 2020 was characterized by weak revenue generation, rising fiscal deficit and public debt – internal and external. The fiscal challenges of the government are portrayed by several fiscal indicators as serious. The aggregate revenue accruing to the Federation has trended downwards since 2018. The FAAC distribution, January to August declined from N5.430 trillion in 2018 to N5.106 trillion in 2020. The FGN retained revenue during the first half of 2020 at N1,862.00 billion, was a dismal 47.62 per cent less than the revised budget benchmark. Oil revenues attained 62.72 per cent of set target, despite the amply revised US\$28.00 benchmark crude oil price per barrel; Non-oil revenue sectors achieved 59.17 per cent of the set target, and Other Revenues achieved the least performance accruing 26.28 per cent of anticipated income.

While revenue performance was poor, expenditure performed significantly higher than revenue at 88.76 per cent. This was led by overhead cost with performance rate of 134.13 per cent, and Personnel Costs at 101.04 per cent. However, capital expenditure trailed behind at 39.23 per cent. It is hardly surprising, therefore, that the Federal Government's fiscal operations resulted in a fiscal deficit of N2.594 trillion in the first half of 2020. To finance the deficit, the Federal Government borrowed N1,419.99 billion from the domestic markets through the issuance of FGN bonds leaving a net overall deficit of N1,174.99 billion as at June 2020. In light of the mounting fiscal deficits, public debt has consistently maintained an upward trend, rising from N28.63 trillion in March 2020 to N31.01 trillion on June 30, 2020. Domestic and external debt stocks accounted for 59.3 percent and 40.7 percent, respectively, of the total Federal

Government's outstanding debt stock, indicating the external debt stock as having exceeded the 40.0 percent target in the Government's borrowing strategy. The debt service to revenue ratio (January to August) rose from 51.5 percent in 2019 to 84.1 percent in 2020 vividly portraying a highly burdensome and unsustainable debt profile.

OPINION

What is clear from the above brief review of key problem areas of Nigeria's economic performance is that the economy is grappling with the phenomenon of stagflation with massive unemployment so soon after exiting a similar type of challenge in 2017. Inclusive economic growth is very vital to addressing some of the other challenges like inflation, unemployment and even the issue of fiscal space. But the GDP growth outlook remains challenging for the rest of 2020. This is because of limited fiscal space due to relatively low oil prices and stuttering production; lingering Covid-19 concerns preventing complete easing of economic activities; and weak household consumption due to negative terms of trade and remittances challenges; increased unemployment; and rising inflation, especially food inflation. Therefore, it will not be out of place for monetary policy to strongly complement fiscal policy to tackle the challenge of taking the economy out of contraction/recession trajectory. This will not mean abandoning the price and monetary stability objective by the Central Bank, especially when viewed against heightened significance of legacy structural and recent policy adjustment factors in raising the tempo of inflation in the country.

Now, what is the role of the Central Bank in tackling the phenomenon of stagflation which poses policy choice difficulties for policy makers because its components of contraction/recession and inflation are diametrically opposed? If the economy was experiencing only recession and no inflation, then the matter is simple. The fiscal and monetary authorities would be able to expand

fiscal and monetary policies, respectively, to lift the economy out of recession. But if there is inflation and the Central Bank tightens monetary policy to combat it, this would be antithetical to growth. Nevertheless, if the situation were that normal in which the government had the fiscal muscle to implement strong expansionary fiscal policy (corporate tax cuts, increased government expenditure to enhance productivity) to promote growth and lift the economy out of contraction/recession, the Central Bank would implement fairly tight monetary policy to achieve gradual reduction in inflation. Under this scenario, the impact of the recent policy shocks on inflation would be expected to wear out with time while the government frontally addresses the structural factors of headline inflation.

But as at now, the fiscal capacity of the government to stimulate the economy out of contraction is very weak because of lack of fiscal buffers and the heavy negative impact of covid-19 on oil export earnings upon which the country depends rather precariously for naira revenue and foreign exchange earnings. Therefore, further tightening of monetary policy will not be advisable at this point in time. Rather, what is suggestive is a slight loosening of the monetary policy stance, through a downward adjustment of the Monetary Policy Rate (MPR), to complement the expansionary fiscal policy stance of the Federal Government and, of course in the hope that Deposit Money Banks would respond positively to MPR reduction by increasing credit at reduced lending rates.

The government has appropriately responded to the adverse growth, income and employment implications of the coronavirus-induced economic lockdown or downturn of the economy by formulating a N2.3 trillion Economic Sustainability Plan (ESP), a stimulus package whose size could have been higher but for the limitations posed by the quantity and price of oil. A higher stimulus package and higher oil prices would result in lower negative growth or positive growth. Nevertheless, ESP is well-articulated with costed projects, policies and

measures aimed at stimulating virtually every sector – ranging from agriculture and food security, massive housing, job retention/creation to internal security. And the Central Bank is playing a critical role in the implementation of this Plan even while continuing with its various development finance interventions. This is commendable. However, although ESP is a one-year plan, some of its elements could spill-over into the medium term. And this will not be helpful to the present exigency of halting contraction of the economy/moving the economy into the positive growth trajectory. Therefore, the government should consider front-loading the implementation of the elements in the Plan that are critical to the realization of the present growth objective, and positively impacting livelihoods and businesses. Efforts should be made to mobilize resources to actualize this so that the ESP will not turn out to be the case of “closing the stable after the horse has escaped”.

In consideration of the foregoing, I vote to ease monetary policy slightly by reducing the MPR by 50 basis points and adjust the asymmetric corridor to +100/-700 basis points. Other parameters should be retained at: CRR: 27.5% and Liquidity Ratio: 30%.

7. OBIORA, KINGSLEY ISITUA

In light of the ongoing severe economic reverberation of the pandemic, and its associated effects on economic agents, I voted to reduce the MPR by 100 basis points to 11.5 percent, while retaining the CRR at 27.5 percent, the LR at 30.0 percent and the asymmetric corridor of +200/-500 basis points around the MPR. Despite its potential inflationary effects, I believe this stance is critical to ensure that a robust and inclusive economy emerges from this crisis.

The Novel Coronavirus Disease (COVID-19) continues to spread rapidly across the world. Since the last MPC meeting in July, global cases have risen from 14 million confirmed cases and 600,000 deaths to over 30 million confirmed cases and over 950,000 deaths, according to the World Health Organization. Whilst lockdown restrictions have eased from their heights, many countries are faced with the possibility of a second wave.

Official statistics from the second quarter of 2020 have confirmed the severity of the global economic downturn caused by these restrictions. These include contractions of 32.9, 20.4, 13.8 and 10.1 percent in the United States, the United Kingdom, France and Germany, respectively. Many emerging markets fared even worse, with contractions of 23.9 and 51.0 percent in India and South Africa, respectively. However, there are signs of optimism for the third quarter. For example, J.P. Morgan's Global Manufacturing Purchasing Manager's Index (PMI) has recorded an increase in manufacturing output for two consecutive months, following five months of decline, with the indicator reaching 51.8 in August 2020.

Whilst less severe than in other countries, Nigeria has also experienced a significant retrenchment in economic activity. Official statistics from the National

Bureau of Statistics (NBS) estimate a contraction of 6.1 percent during the second quarter of 2020. The sectors recording the largest declines in activity include Transportation & Storage, Accommodation & Food Services and Construction with declines of 49.2, 40.2 and 31.8 percent, respectively. The Mining & Quarrying, Manufacturing and Trade sectors also fell by 6.6, 8.8 and 16.6 percent, respectively. There were, however, key sectors where strong performance was recorded, including Financial & Insurance, Information & Communication and even Agriculture, with growth of 18.5, 15.1 and 1.6 percent, respectively. Decisive actions taken by the Federal and State Governments, as well as by the Central Bank of Nigeria (CBN), have helped to partially soften the impact from the pandemic on the economy.

Despite the persistence of the pandemic, the financial system has remained relatively stable and robust to withstand shocks. Credit to various sectors witnessed a significant boost from N15.57 trillion to N19.33 trillion between May 2019 and August 2020. This outcome reflects the continued implementation of the Loan-Deposit Ratio (LDR) Policy. In particular, the growth in credit was mainly directed to manufacturing (N866.27 billion), consumer credit (N527.65 billion), oil & gas (N477.65 billion), agriculture (N287.11 billion) and construction (N270.97 billion). Short-term interest rates continue to suggest declining surfeit in the system with average Open Buy Back (OBB) rate decreasing to 8.39 per cent in August 2020 from 10.12 per cent in July 2020.

In the Foreign Exchange (FX) market, the CBN has implemented various measures to ensure stability and alleviate the imbalance between FX supply and demand. On the supply side, FX inflows have been boosted by the stabilisation of oil prices above US\$40 per barrel, from lows of US\$20 per barrel in April. The CBN is also proactively working with the Nigerian Export-Import Bank (NEXIM) to promote non-oil export champions and support the expansion of their export earnings. On the demand side, the CBN is working aggressively to

eliminate incidences of over-invoicing and mispricing of goods and services imported into the country. All payments that are routed through buying companies/agents or any other third parties, rather than the ultimate supplier, have now been prevented from processing by Nigerian banks. The CBN is also developing an independent Product Price Verification Mechanism to ensure that quoted prices are validated before Forms M are approved. Furthermore, the CBN is investigating and clamping down on several unauthorised foreign exchange transfer activities under the guise of payments for various services or software. These complement the ongoing efforts by the CBN to reduce demand for FX by fostering domestic food production.

In order to support the Naira, we must also continue to build a Nigeria that meets the needs of all citizens. Foreign school fees and medical expenditures account for a non-negligible share of FX purchases from the CBN's foreign reserves. Rather than exerting pressure on the Naira to provide for the needs of the privileged few, imagine a Nigeria where *all* citizens have access to high-quality schools and hospitals within the country. Ultimately, it is catering for these fundamental needs and developing local production capacity that will drive inclusive growth and a sustainably strong Naira.

In pursuit of this ultimate vision, today's policy decisions are characterised by difficult trade-offs, given the unprecedented challenges that we face. On the one hand, the headline inflation rate has increased to 13.22 percent in August from 12.82 percent in July, with food inflation now at 16.00 percent. This would suggest that a monetary tightening is needed to preserve the value of Nigerians' hard-earned income and savings. On the other hand, Nigeria also needs growth. The NBS Labour Force Survey for the second quarter of 2020 notes that 47.2 percent of the Nigerian labour force is unemployed or underemployed (27.1 and 20.1 percent, respectively). Another NBS report on the impact of COVID-19 in FCT Abuja, Kano, Lagos and Rivers notes that, in all four states, food

insecurity is prevalent and at least two-thirds of households have spent their savings to cover living expenses; a significant proportion of households have even had to borrow, including over 60 percent in Kano. The CBN has continued to intervene forcefully to stimulate growth across multiple sectors of the economy, including MSMEs, manufacturing and healthcare. Another recent example is the approval of a N200bn mortgage finance facility for low income earners, through the Family Homes Fund Limited, providing 300,000 affordable homes and creating jobs for the construction sector and for its local suppliers. However, the economic headwinds we face are so strong that even more action is needed to deliver robust growth.

Having carefully considered this trade-off between inflation and growth, I voted to reduce the MPR to help to alleviate the severe economic hardship faced by many Nigerians today. I believe that the debilitating effects of a declining economy and high unemployment/underemployment outweigh the costs of rising inflation. The COVID-19 crisis is far from over, and we must act decisively to protect people's livelihoods. If we fail to do so, we risk emerging from this crisis with an economy that is neither robust nor inclusive.

On this basis, I voted to:

- Reduce the Monetary Policy Rate (MPR) to 11.5 percent from 12.5 percent;
- Retain the Cash Reserve Requirement (CRR) at 27.5 percent;
- Retain the Liquidity Ratio (LR) at 30.0 percent; and
- Retain the asymmetric corridor of +200/-500 basis points around the MPR.

8. SANUSI, ALIYU RAFINDADI

1.0 Decision:

In today's meeting, I voted to retain the MPR, CRR and LR at their current levels, but to adjust the asymmetric corridor of the Standing Deposit and Lending Facilities (SDLF) around the MPR. The decision to retain the MPR for now, despite my conviction that monetary easing is the necessary response to an impending recession, was informed by my concern about the threat of accelerating inflation, which, in my opinion, requires a more cautious approach to the process of monetary easing.

2.0 Background and Justification

2.1 Global Economic Developments

As the global economy continues to witness the full impact of the lockdown and other restrictions associated with the COVID-19 pandemic, global economic recovery remains uncertain. Although the deeper-than-expected downturns across the major economies have led to a downgrade of the global economic outlook, recent data show improved global economic expansion with recovery expected in 2021.

Recent developments in the global economy reveal that the economic consequences of the COVID-19 pandemic are likely to be worse than earlier anticipated, with the recovery path slower than earlier expected. In 2020Q2, output contracted (q-o-q) in most of the advanced and emerging market economies. In the US, output (q-o-q) contracted further from -5% in Q1 2020 to -31.7% in Q2 2020. In the Euro area and the UK, output also contracted further from -3.6% and -2.2% in Q1 2020 to -12.1% and -20.4% in Q2 2020, respectively. In the Emerging Markets and Developing Economies (EMDEs), India and Russia recorded low positive growth (q-o-q), while Brazil, South Africa and Nigeria recorded negative growth (q-o-q) in Q2 2020. China, however, recorded 11.5%

growth (q-o-q) while South Africa contracted (q-o-q) by 51.0% in Q2 2020. Although new data on global output and forecasts are not yet available, Bloomberg's World Trade (volume) and Industrial Production indices show significant upturns in June 2020. The growth rate of world trade volume has increased from a contraction of -14% in April 2020 to an expansion of 8.2% in May 2020 as a result of the significant increase in both imports and exports following the easing of the lockdown. Global Composite Purchasing Managers' Index (PMI) also shows signs of slow but sustained recovery between April and August 2020, especially in the US and UK that were worse hit by the pandemic. However, the JP Morgan's Global Composite Output Index shows a much quicker output recovery rising from 47.7 index points in June 2020 to 51.0 and 52.4 index points in July and August 2020, respectively. *The signs of a sustained recovery in global trade and manufacturing activities increase the likelihood of recovery of the global economy in 2021.* As the global output recovery for the year 2020 remains weak in both the Advanced Economies and EMDEs, and as oil output declined in Q2 2020 to 85 mbpd from 94.96 mbpd in Q1 2020, the IEA's forecast for 2020 was revised downwards by 0.1 mbpd due to the lower-than-expected economic activities following the ease of restrictions and the risk of second-wave of the pandemic. Despite the production cut agreement by the OPEC+, oil price, which stood at US\$41pb (Bonny light) as at 4th September 2020, is expected to remain low in the range of US\$40 - US\$46 to the end of 2021 going by development in the futures market. *A key implication of the weak global output and low oil prices in the medium term, for the domestic economy, includes narrower fiscal space for the implementation of the Economic Sustainability Programme (ESP), potentially current account imbalance, lower foreign exchange receipts, which could adversely affect public debt, foreign reserves accretion as well as exchange rate stability.*

Global price developments continued to be shaped broadly by the weakening aggregate demand and supply. In most advanced economies, inflation has

declined and remains near zero, suggesting a relatively stronger depressing influence of the weakening aggregate demand than supply. In these countries, therefore, the associated COVID-19 liquidity injection programmes have helped boost aggregate demand for price and output recovery. Consequently, inflation in the US has increased (year-on-year) from 0.6% in June 2020 to 1% in July 2020. In the UK, inflation, which was low at 0.1% in June 2020 rose to 0.4% in July 2020 due to improved aggregate demand following the ease of COVID-19 associated restrictions and liquidity injections. In the Euro area, inflation contracted by -0.2% in August 2020 indicating deflation. In the EMDEs, however, price developments were shaped by depreciating exchange rates given high exchange rate pass-through. In India, China, Ghana, South Africa, Brazil and Nigeria, inflation has increased in July 2020. In response to the price and output development, Central Banks across the globe broadly continue to be accommodative in both advanced economies and EMDEs. A survey of 14 central banks, however, shows that although all have some form of monetary accommodation, only four of them lowered their policy rate between July and September 2020.

2.2 Domestic Economic Developments and their Implications

Available data shows that, during the second quarter of 2020, output had contracted by 6.1% compared with the positive growth of 1.87% recorded during the previous quarter. The contraction reflects the well-anticipated adverse effects of the COVID-19 containment measures including the lockdown, decline in crude oil prices, supply chain disruptions and weak exports. Thus, both the oil and non-oil output had contracted during the period. For instance, the oil sector shrank by 6.63% while the non-oil sector contracted by 6.05% during the quarter. While the output of the Industry and Services sectors contracted by 12.05% and 6.78%, respectively, that of Agriculture expanded by 1.58%. Data from the NBS indicates that, as expected, sub-sectors with the most

affected activities such as oil refining, rail transport and pipelines, air transport, road transport, accommodation and food services, construction, education, etc., contracted the most. The least affected sub-sectors, which were fairly insulated from the COVID-19 containment measures such as financial services, telecommunication, broadcasting, coal mining, water supply, etc., recorded expansion during the quarter. Following the gradual opening up of the economy, however, there are signs of output recovery during the third quarter. For instance, although still below the breakeven point of 50, the Purchasing Managers indices have trended upwards since June 2020. Specifically, the Manufacturing PMI, which stood at 42.4 in May 2020, has improved to 48.5 in August 2020. The non-manufacturing PMI has also improved from 25.3 in May 2020 to 44.3 in August 2020.

Although the international crude oil price, which started recovering in April 2020, has stabilized just above US\$40 pb, both production and export have significantly fallen in June, July and August in compliance with the OPEC+ production cut. Production, as at end-August 2020 fell to 1.52 mbpd, or 20% below the revised budgeted benchmark. Notwithstanding the oil price being above the revised fiscal benchmark of US\$ 28pb, the lower production and exports are likely to adversely affect fiscal performance and external reserves accretion.

Inflation figures released by the NBS show the well-anticipated upward trend in the headline inflation (y-o-y) that started in September 2019 following the closure of land borders. In August 2020, headline inflation rose to 13.22% (y-o-y) from 12.82% in July 2020 as a result of an increase in both the food and core components. Food price inflation (y-o-y) rose from 15.48% in July 2020, to 16.00% in August 2020, driven by an increase in the prices of processed food and farm produce. Core inflation (y-o-y) rose from 10.10% in July 2020, to 10.52% in August 2020, due to increase in the prices of clothing & footwear, education,

housing, water, gas & other fuels, hotels, etc. Many recent domestic economic developments have contributed to the rising inflationary pressure during the period. These developments include the removal of fuel on PMS, increase in electricity tariff, exchange rate adjustment, flood in food-producing agricultural areas. *These developments, in addition to the subsisting land border closure and other structural factors, are likely to continue to influence price developments in the medium term.*

A review of monetary developments suggests that the money supply has significantly expanded in July and August 2020. M3, the broadest money supply, grew by 5.23% and 6.93 % in July and August 2020, respectively, over the preceding December 2019. The annualized rate in August 2020 is 10.93%, which is well above its provisional benchmark of 4.66% for 2020. Reserve Money has also increased (by 57.93%) in August 2020 and was 8.56% above its provisional benchmark for Q3 2020.

A review of the Banking System reveals that the industry continues to be stable and the NPL continues to decline. Between end-May 2019 and end-August 2020, the total credit to the economy has increased by N3.766 trillion, or 20.43%, due to the CBN's LDR policy which encouraged banks to lend. Since the last MPC (end-June 2020 to end-August 2020), total credit to the economy has increased by N432.92 billion. Most of this increase in credit was extended to manufacturing, consumer credit, general commerce, ICT and Agriculture. The report shows that the various interventions to promote financial stability and improve economic recovery after the lockdown continue to work in the desired direction. For instance, over N7.7 trillion or 43.02% of the industry has been restructured as a result of the forbearance granted to banks. The disbursements of the CBN's COVID-19 credit intervention also continues to show significant progress. Out of the N100 billion Healthcare funds, 44.47 billion, representing 35% of the total applications received has been approved for a total of 41 projects

in the healthcare sector. Out of the N100 billion Targeted Credit Facility for Households and MSMEs, N73.685 billion has been disbursed to 120,074 beneficiaries, and N2.93 billion was disbursed to 250 beneficiaries under the Creative Industry Financing Initiative (CIFI). Under AGSMEIS, N54.66 billion has been disbursed to 4,638 beneficiaries.

Review of domestic economic developments, therefore, suggest that the various monetary and credit policies being implemented are continuing to provide the required liquidity to household and businesses as the economy gradually re-opens. Revised Staff forecasts show that, with a successful implementation of the Federal Government's Economic Sustainability Plan, real output growth is expected to range between -3.08% and -2.64% in 2020, and between 0.04% and 0.73% in Q1 2021 depending on the level of oil price. Inflation is forecasted to continue on its upward trend throughout 2020 due to the rising exchange market pressure, higher food costs due to the supply chain disruptions, the continued closure of land borders, insecurity and flooding in the food-producing areas, and higher transport costs following the hike in the price of PMS and electricity tariff, and quantitative easing. Indeed, both month-on-month and annualized month-on-month headline inflation are showing significant signs of acceleration. Review of the domestic economic developments suggests that the heterodox policies and the COVID-19 interventions are showing good signs of effectiveness as credit flows to the private sector continue to increase despite the lockdown.

3.0 The Basis for My Policy Choice

The evidence reviewed shows that, as a result of the monetary and credit policies being implemented, monetary aggregates are expanding (as required in the face of an impending recession), and credit flows to firms and businesses are improving as the economy re-opens. Although output growth is likely to remain negative, there is also some evidence of output recovery. While the

negative output raises my temptations to vote for a further cut in the MPR, the evidence that inflation not only threatening to continue on its upward trend but also threatening to accelerate is concerning. Furthermore, reducing the MPR in the face of rising inflation raises concerns about capital flows as real yields continue to decline relative to other destinations. These concerns, therefore, inform my cautious approach to monetary easing as the economy re-opens. I, therefore, voted to retain the MPR, CRR and Liquidity Ratio at their current levels. I voted to adjust the asymmetric corridor around the MPR as a means of improving liquidity management.

Consequently, I voted to:

Retain the MPR at 12.50 per cent;

Retain the CRR at 27.5 per cent;

Retain the asymmetric corridor at +100/-700 basis points; and

Retain liquidity ratio at 30.0 per cent.

9. SHONUBI, FOLASHODUN A.

Despite many governments around the world avoiding full-scale lockdown to avert deeper recession, the lingering impact of disruption from initial widespread restrictions and rising uncertainties on account of scattered episodes of a second wave of the pandemic, continues to reinforce sluggish and uneven recovery. The Nigerian economy, therefore, remains challenged by deepening vulnerabilities, especially in the external and fiscal sectors, as a result of contagion from a depressed global economy, as well as, low crude oil price and output restrictions. As I mentioned in my previous statements, the new uneasy normal provides opportunity to sustain deployment of unusual measures that focuses on drawing from our internal strength and fully leveraging local endowments and resources.

Global Economic Developments

True to predictions, impact of the pandemic was deeper in the second quarter of 2020. The global economy is bedeviled by sluggishly recovering global trade that is worsened by stagnated cross-border migration, weakened economic activities and shaky oil market. Apart from China, which grew by 11.5 per cent quarter-on-quarter, most of the other major economies experienced significant contraction. The US, euro-area and UK recorded double digit quarter-on-quarter contraction. In the Emerging Markets and Developing Economies, growth in India slowed to 0.7 per cent, Russia grew marginally by 0.3 per cent, while South African and Brazilian economies contracted. Overall, global growth prospects remain subdued by heightened uncertainties, due to weak trade, volatile commodity market, mixed inflation development and cautious financial market sentiments.

Domestic Economic Environment

Contraction in real GDP at end-June 2020 was in line with global expectations that biggest impact of lockdown measures to curb the spread of the pandemic would be experienced in the Q2 of 2020. Driven by negative growth in oil and non-oil sectors, the gross domestic product (GDP) contracted by 6.10 per cent, year-on-year, in the second quarter, compared with 1.87 per cent growth in the first quarter of 2020. Apart from major expansion in the financial institutions, telecommunications and coal mining sub-sectors, some of the other sub-sectors grew marginally. Overall negative growth, however, reflected substantial contractions in oil refining, transportation and construction sectors, among others.

Headline inflation maintained an upward trend for the twelfth consecutive month, reflecting impact of pandemic-related restrictions, border closure and exchange rate pass through. Food and core inflation rose to 16.0 per cent and 10.52 per cent, respectively, in August 2020, pushing headline inflation further to 13.22 per cent, its highest level since April 2018. On month-on-month basis, headline inflation accelerated for the sixth consecutive month.

Banking sector resilience remains preserved, as evidenced by sustained growth in industry credit and asset. Financial soundness indicators have also remained in comfortable territories. Industry credit to productive sectors continued to grow and profitability remained positive. Industry capital adequacy and liquidity ratios were above the minimum threshold. Non-performing loans ratio fell to 6.1 per cent in August 2020, from 6.4 per cent in July 2020, though it remained marginally above the regulatory minimum of 5.0 per cent.

Developments in the monetary sector and financial markets show relative stability, as liquidity and market conditions are continually moderated by the intervention measures of the CBN. Growth in credit to the private sector and net domestic credit exceeded indicative benchmarks, buoyed by CBN's measures to reflate the economy through increased credit. Growth in the major monetary aggregate and credit to government, however, fell short of the benchmark. Money market rates trended downward, as a result of ample liquidity in the banking sector. Moderate rebound in the capital market reflected gains by large corporation stocks and gradually improving investors' confidence.

The fiscal and external sectors are the most challenged by the direct and indirect impact of the pandemic. The fiscal space is characterised by low revenue, expanding expenditure, rising deficit and growing debt. Reduced foreign exchange revenue from falling export and declining capital inflow has also put a strain on the external sector position, though resumption of foreign exchange sales by the CBN has engendered relative exchange rate stability.

Overall Considerations and Decision

Notwithstanding the dispersed signs of slow recovery, prospects of steady global growth rebound remain cloudy. Even as governments deepen implementation of stimulus programmes and most central banks maintain accommodative policy stance, re-introduction of localized lockdowns to curb a second wave of the pandemic has further heightened uncertainties. Stunted global growth, drying capital flows and regime of low oil price is critically affecting Nigeria. It reinforces the need to deepen implementation of the strategy to build an economy that is driven, mainly, by its internal endowment and domestic economic forces.

On the domestic front, that we must take decisive actions to halt acceleration in inflation is important, especially on account of the primacy of our price stability

mandate. However, considering that the ultimate is to achieve price stability that is conducive for growth, we must address the danger of imminent recession. The question is what we must do to avoid or ameliorate the consequences of a recession, while pursuing goals that eventually result in deceleration in prices.

Latest output data show that many of the sectors with significant contraction were affected by lockdown restrictions and likely to rebound quickly as restrictions are gradually eased. Moreover, an economy characterised by weak demand, widening negative output gap, shrinking investment and rising unemployment, needs to be reflated. Unfortunately, the fiscal space, the first point of call in situations like this, is constrained by low revenue, rising deficit and high debt service burden, which limits its ability to further stimulate economic activities. To significantly improve capacity of the fiscal space, I encourage the fiscal authority to adopt more pragmatic strategies of aggressive expenditure rationalisation, widening the tax net and promoting service for payment strategies.

I commend the CBN for the progress made so far with the development finance initiatives and LDR policy to increase credit flow to households and businesses. Clearly, the significant growth in credit from banks and various interventions have in no small way moderated the initial impact of the pandemic. As the CBN sustains these measures, we must continue to ensure that funds get to targeted economic agents and are applied to the intended purposes for expansion in the real sector.

Overall, the state of the economy requires that we must keep as many as possible economic agents active and promote expansion of economic activities to create more employment and guarantee income. On the back of an inflationary pressure that is induced, largely, by temporary disruption to supply chain, one-off shocks and structural rigidity, I am certain that as we keep

the engine of economic activities grinding, the cost reducing effect of increased productivity and economies of scale will eventually drive prices down.

I vote to:

- Reduce MPR by 100 basis points from 12.50 to 11.50 per cent;
- Adjust the asymmetric corridor of +200/-500 basis points to +100/-700 basis points around the MPR
- Retain Cash Reserve Ratio (CRR) at 27.5 per cent; and
- Retain Liquidity Ratio at 30.0 per cent.

10.EMEFIELE, GODWIN I.

GOVERNOR OF THE CENTRAL BANK OF NIGERIA AND CHAIRMAN, MONETARY POLICY COMMITTEE

Global macroeconomic performance in 2020H1 and short-term outlook were extensively hampered by the covid-19 containment measures adopted by many countries. Social and economic challenges, due to the pandemic, are expected to linger throughout 2020 although their intensity will gradually abate as lockdown restrictions are relaxed. Yet, the unprecedented global contraction recorded in 2020q2, especially among OECD countries, requires huge and sustained stimulus to be overturned. With inflation trending downwards in major economies, monetary policy is protractedly accommodative with ramifications for capital flows to EMDEs. Financial markets remained vulnerable in many countries as uncertainties diminished investor sentiment. The depth of contraction recorded ubiquitously in 2020q2 suggests that the IMF global growth forecast of -4.9 per cent for 2020 may be lowered again, regardless of ample stimulus and lockdown eases.

In the domestic economy, macroeconomic conditions and near-term prospects remained frail following the slowdown in many economic sectors. Real GDP contracted by 6.1 per cent in 2020q2, due to the considerable decline in the oil sector and the adverse effects of the lockdown on the transportation sector and the hospitality industry. The scale of domestic contraction was cushioned by expansions in the financial industry, the ICT sector and the agricultural sector. Of the overall GDP outcome, the non-oil sector contributed -5.5 per cent while oil accounted for -0.6 per cent. This highlights the critical importance of the non-oil sector in driving the domestic economy. With prevailing disruptions in the international oil market, recovery prospect in the near-term is solely hinged on non-oil activities if vital lifelines are availed to the sector.

Due largely to supply shocks and structural factors, inflationary pressure which emerged in September 2019 persisted. Year-on-year headline inflation rose to 13.2 percent in August 2020 from 12.8 percent in July. This reflected the 52 basis points increase in food inflation to 16.0 per cent and 42 basis points rise in core inflation to 10.5 per cent. The uptick during the month was fundamentally due to energy price shocks, flood-induced food shortages, and exchange rate vagaries. While the energy and exchange rate shocks are transient, the impact of the food shortages (which accounted for most of headline inflation) may persist if not tackled. With these adverse impulses, inflation inertia is expected to continue in the near-term and begin an asymptotic decline by mid-2021.

Importantly, the concurrence of rising inflation and economic contraction does not only pose a dilemma for policymaking, it forebodes the need to strengthen the productive base of the economy. Again, current realities underscore the need for sustained support of the real sector through growth enhancing policies. I note the CBN's development finance initiatives to minimise the adverse impact of the covid-19 pandemic, resolve underlying structural deficiencies, and speed-up recovery. The liquidity support covers various economic activities and aims to narrow supply shortages within the economy and boost consumer spending. I am of the view that an effective correction of the supply shortages (especially in farm produce) will have the dual effects of boosting output and moderating inflation.

Analysis of liquidity conditions indicates expansion in monetary aggregates and single-digit money market rates. Weighted average inter-bank call and open-buy-back rates were 7.4 and 8.4 percent, respectively, in August 2020. Broad money stock (M_3) recorded an annualised growth of 10.4 percent reflecting the 19.4 percent annualised growth in private sector credits during the month. Growth in domestic credit illustrates the continued potency of the Bank's LDR policy as gross credit grew by N3.8 trillion since May 2019 to N19.3 trillion in

August 2020. This followed increased lending to manufacturing, consumer credit, and agriculture among others. Even with fragile financial markets condition (as capital market indices improve and FX market pressure persists), the Nigerian banking sector remained largely stable. NPL ratio fell further to 6.1 per cent in August 2020 from 11.2 percent in May 2019 as CAR rose to 15.3 percent from 14.5 per cent.

In my consideration, I stress again the need for sustained support of the real sector at this critical time to stimulate aggregate supply and enhance job creation. Given the ramifications of supply shock and food shortages for GDP and inflation outcomes, policy should optimally aim to resolve structural constraints. In this regard, the CBN will continue to liaise with banks to restructure lending and grant forbearance to constrained economic units.

I note the dilemma created by the rising inflationary pressure and falling output and the trade-off inherent in policy options. I acknowledge the primacy of price and exchange rate stability and underscore the need to not lose sight of output stabilisation. I note that both inflation and exchange rate expectations are elevated in the short-term while growth outlook is weakened by supply shocks and the lingering effects of the Covid-19 economic lockdown. Given the GDP contraction in the 2020q2, growth prospects remain frail for the remaining quarters of 2020. I expect that with continued easing of restrictions, the economy will begin to recover in 2020q3, though this may be incomplete even by year end. Again, I favour measures to avert a recession or at least curtail its intensity.

Yet, it is important to ensure that measures to support growth do not undermine price stability and do not introduce new shocks to the system. I note that tightening, at this time, to curb inflation will worsen output contraction and cause avoidable recession. But, policy loosening at this time to support growth

will exacerbate inflationary pressure, exaggerate negative real MPR (which could destabilize domestic investment decisions) and impair portfolio investments. The CBN has through its development financing, LDR and DCRR policies provided liquidity impetus for the real sector. I am of the view that since the impact of this actions and the impulses from the recent policy adjustment are still unfolding, it is imperative to be cautious with our decisions.

Overall, on a balance of probability and evidence, I note that the outside lag of monetary policy is relatively long. Thus, I underline the need to defer adjustments, allow these lag effects to wear out, and avoid undue policy shocks to the system. With the continued impact of the various real sector liquidity support, I am of the view that the right impetus to rectify the supply shortage is sufficiently in place. Today, policy impulse is undue and, in my view, could complicate recovery. My inclination is, thus, to hold all parameters. I believe the current stance could amply balance the long-run objectives of price stability and output stabilisation without complicating recovery. Therefore, I vote to:

1. Retain the MPR at 12.5 percent;
2. Retain the asymmetric corridor at +200/-500 basis points;
3. Retain the CRR at 27.5 percent; and
4. Retain liquidity ratio at 30.0 percent.

GODWIN I. EMEFIELE, CON

Governor

September 2020